

# **TIMBER LIQUIDATION IN MAINE: A REPORT BY THE MAINE FOREST SERVICE**

## **INTRODUCTION**

The recent debate on forest management practices and forest policy in Maine included the issue of timber liquidation. The Compact for Maine's Forests defined timber liquidation as "excessive timber harvesting on forest lands held for less than 10 years." At least one recent legislative proposal recommended restrictions and penalties on the practice of timber liquidation.

Timber liquidation is generally viewed as inconsistent with accepted principles of forest stewardship. It often leads to indiscriminate harvest; it is often a speculative practice that can lead to volatility in timberland prices and hasty land subdivision (both regulated and unregulated); and it is characterized by disposition of timberland with little regard for its continued use as productive forest land.

Debate over the issue of timber liquidation has been based on anecdotal evidence. The Maine Forest Service has undertaken a study in order to provide a quantitative estimate of the nature and extent of timber liquidation in Maine.

For purposes of this analysis, timber liquidation is defined as: "the purchase of timberland followed soon thereafter by the removal of most or all commercial value in standing timber, and subsequent attempted resale of harvested land."

Timber liquidation does not include timberland that is subject to heavy harvesting and remains under a stable ownership for some period of time after harvest.

## **METHODS**

1. MFS used two data sets to examine trends in liquidation harvesting.
  - A. MFS pooled timber harvest notification numbers from year-end Land Owner Reports for 1995 and 1996. The land owner reports were stratified by landowner type (Small Private Land Owner, Industrial Land Owner, Large Non-industrial and Other). 428 Land Owner Reports were randomly selected in proportion to the distribution of harvests by land owner type, with the following distribution:

<b>Land Owner Type</b>	<b># of sites</b>	<b>Harvest Acres</b>	<b>% of sample sites</b>	<b>% of harvest acres</b>
Small Private	361	20,706	84.3%	40.9%
Forest Industry	42	20,906	9.8%	41.3%
Large Non-industrial	12	5,501	2.8%	10.9%
Other	13	3,453	3.0%	6.8%
<b>Total</b>	<b>428</b>	<b>50,566</b>		

- B. MFS used a second data set, from the 1995 "Evaluation of the Effects of the Forest Practices Act", to verify results from the 1995 -1996 Land Owner Reports. The Evaluation of the Forest Practices Act used field measurements on 131 sites harvested between 1991 and 1993. Field measurements included basal area of the residual stand, estimated basal area removed by harvesting, and estimates of harvest quality

and residual stand quality. These stand basal area measurements provide a more objective indicator of harvesting that removes all or most commercial value of a stand.

2. Research was conducted at the county Registry of Deeds offices during January and February 1998 to reveal any purchase, sale, or subdivision activity for each sample site. Information collected at the Registry of Deeds includes:
  - was the parcel purchased by the current land owner up to 10 years prior to harvesting
  - has the parcel been sold since harvest
  - did the purchase or sale of the parcel include any creative financing or mortgage agreements
3. Harvest Information - For those sites that experienced purchase or sale activity, MFS project analyst used harvest data from the 1995 and 1996 Landowner Reports to determine if each site could be characterized as a liquidation harvest.

Harvest volume per acre, as calculated from the Land Owner Reports, is not a consistently reliable measure of harvest intensity, since harvest volume and harvest acres reported by land owners are questionable in some cases. Where available data was suspect or insufficient to characterize each site, local knowledge of the harvest site was solicited from Maine Forest Service field staff or other knowledgeable sources.

Sample sites were characterized as liquidation harvests if the site was purchased, harvested to remove most or all commercial value of the standing timber, and subsequently sold. (Harvests that were converted to other land uses were not characterized as liquidation harvests.)

## RESULTS

Based on the 1995 Evaluation of the Effects of the Forest Practices Act:

- Using field data from 1991 to 1993 harvest sites and Registry of Deeds research, MFS project analyst characterized 9.5% of the harvest acres from the FPA sample as liquidation harvests. (The majority of these liquidation harvests removed 50% or more of the original stand and received low ratings for harvest quality and quality of the residual stand.)

This is a higher rate of liquidation than found in the 1995-1996 data set. It is important to note that these sites were harvested during the period 1991 to 1993, and registry of deed research was done during January and February 1998. It is more likely, due to the longer time frame, that owners of these sites will have completed the cycle of buy, harvest, and sell.

Potential liquidations in this data set were relatively minor at 0.27% of the harvest acres (170 acres on 2 sites).

Based on the 1995 - 1996 Land Owner Reports:

- 2.3% of the sample acres (1,198 acres on 35 harvest sites) were converted to other land uses, and removed from the data set for further analysis.
- 2.5% of the sample acres (1,288 acres on 13 harvest sites) were characterized as liquidation harvests. Expanding to a state-wide basis, MFS estimates that 2.5% (approximately 1,180 acres) of the annual harvest acres are liquidation harvests.

- An additional 11.7% of the harvest acres (5,919 acres on 19 harvests) were characterized as potential liquidation harvests. These sites have been purchased and harvested to remove commercial value, but have not been sold. Expanding to a state-wide basis, MFS estimates that 11.7% (approximately 55,300 acres) of the annual harvest acres are potential liquidation harvests.
- All of the 32 sites characterized as liquidations or potential liquidations occurred in the Small Private Landowner Class.
- 75% of the acres characterized as liquidation harvests (968 harvest acres on 11 harvest sites) and 97% of the acres characterized as potential liquidation harvests (5,728 harvest acres on 15 harvest sites) were owned by logging contractors or realtors.
- The contractor/realtor landowner group shows a higher rate of liquidation or potential liquidation harvesting than other landowner groups. This group owned 8,155 harvest acres in the sample, and 82% of this group's harvest acres (6,696 acres on 26 harvest sites) were characterized as liquidations or potential liquidations.
- MFS project analyst searched the 1995 and 1996 land owner reports to estimate the total harvest activity for those contractor/realtor landowners who are associated with liquidation or potential liquidation harvests in the sample.

The distribution of 1995 -1996 harvest sites and harvest acres for this group of landowners follows:

1995 - 1996 Harvest Summary for Contractors/Realtors associated with Liquidation Harvests		
# of Land Owners	# of harvest sites per land owner	Harvest Acres for group
8	1	245
4	2	1,472
3	3	526
2	4	415
2	6	1,325
2	7	1,642
1	9	520
1	10	800
1	49	17,718
<b>Totals</b>	<b>24</b>	<b>91</b>
		<b>24,663</b>

This distribution demonstrates that the specific group of contractors/realtors associated with liquidation harvests in the 1995-1996 sample harvested a total of 24,663 acres on 91 sites during the two year period. One land owner alone harvested nearly 18,000 acres on 49 different sites.

- Applying a rate of 82% for the contractor/realtor landowner sub-group on a state-wide basis, we might expect 20,223 acres of liquidation or potential liquidation harvests for the two year period, or approximately 10,000 acres from the contractor/realtor sub-group annually.

- Liquidation sites show a relatively short duration of land ownership. 54% of the liquidation sites were harvested and sold within 9 months of purchase, 77% were sold within 1 year of purchase, and all were sold within 2 years of original purchase.

## CONCLUSIONS

- Liquidation harvests occur throughout the state, predominantly in organized towns.
- The two data sets provide two estimates, which are useful to bracket the frequency of liquidation harvesting in Maine.

The 1995 - 1996 data set indicates that liquidation harvesting occurs on 2.5% of all harvest acres. Potential liquidation harvests occur on 11.7% of all harvest acres. Expansion to a state wide basis yields an estimated 11,800 acres of liquidation harvesting and 55,300 acres of potential liquidation harvesting.

The 1991 - 1993 data set indicates that liquidation harvesting occurs on 9.5% of all harvest acres. Expansion to a state wide basis yields an estimated 44,900 acres of liquidation harvesting.

Based on the above, MFS estimates between 2.5% and 10% of all timber harvests in the state meet the definition of liquidation harvesting (between 12,000 and 45,000 acres annually).

- Liquidation harvesting is conducted primarily by contractors or realtors within the Small Private Landowner group. Most of the timber liquidation can be attributed to a group of approximately 25 land owners.
- Liquidation harvests ranged in size from 10 to 4,000 acres in size. Nearly half of liquidation harvests are less than 100 acres in size, and 80% are 150 acres or smaller.
- Liquidation harvests retain some stocking of low-quality timber, and generally do not meet the definition of clearcuts under the Forest Practices Act.
- The majority of timber liquidations complete the cycle of buy, cut and sell within two years.